No. 78-308

IN THE

Supreme Court of the United States

OCTOBER TERM, 1978

MOBAY CHEMICAL CORPORATION, *Appellant,*

v.

DOUGLAS COSTLE, ADMINISTRATOR, UNITED STATES ENVIRONMENTAL PROTECTION AGENCY, *Appellee.*

On Appeal from the United States District Court for the Western District of Missouri

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REPLY MEMORANDUM FOR THE APPELLANT

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The Government's Motion to Affirm does not refute Appellant's central contention.

I

Mobay's valuable research, test information and data, including its trade secrets, submitted in confidence to EPA and its predecessors, are property. The Government has not contested this point in its Motion to Affirm, and is not in a position to do so.[1]

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[1] See Department of Justice, Attorney General's Memorandum on the Public Information Section of the Administrative Proce-

This Court has found similar collations of information and data to be property. *International News Service* v. *Associated Press*, 248 U.S. 215, 240 (1918) (collations of news have "all the attributes of property"). *Cf. Board of Trade* v. *Christie Grain & Stock Co.*, 198 U.S. 236, 250 (1905) ("... plaintiff's collection of quotations is entitled to the protection of the law. It stands like a trade secret. The plaintiff has the right to keep the work it has done, or paid for doing, to itself ..."); *Hunt* v. *New York Cotton Exchange*, 205 U.S. 322, 333 (1907) ("It is established that the quotations are property and are entitled to the protection of the law ..."); *Moore* v. *New York Cotton Exchange*, 270 U.S. 593, 605 (1926) ("In furnishing the quotations to one and refusing to furnish them to another, the exchange is but exercising the ordinary right of a private vendor of news or other property."

The cases cited by the Government (Motion to Affirm, p. 8, n.9) do not deal with the question presented here, but with questions of unfair competition in the

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dure Act, "A Memorandum for the Executive Departments and Agencies Concerning Section 3 of the Administrative Procedure Act, as revised effective July 4, 1967" (June 1967), p. 34, where the Department said:

> An important consideration should be noted as to formulae, designs, drawings, *research data*, etc., which though set forth on pieces of paper, are significant not as records but as *items of valuable property*. These may have been developed by or for the Government at great expense. There is no indication anywhere in the consideration of this legislation that the Congress intended, by subsection (c), to give away such property to every citizen or alien who is willing to pay the price of making a copy. Where similar *property* in private hands would be held in confidence, such *property* in the hands of the United States should be covered under exemption (c)(4). [5 U.S.C. § 552(b)(4)] [Emphasis supplied.]

use of fully disclosed but unpatentable items or trade secrets, *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230-231 (1964), *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111, 120-122 (1938), or unlawful use of copyrighted material, *Fortnightly Corp.* v. *United Artists Television, Inc.*, 392 U.S. 390, 393-395 (1968) (which turned on the definition of "performance" under the Copyright Act, not on use). The Court has provided equitable and other protection for those seeking to retain exclusive use of material which is not patented or copyrighted, *International News Service* v. *Associated Press*, 248 U.S. 215 (1918), or which is a trade secret, *Kewanee Oil Co.* v. *Bicron*, 416 U.S. 470 (1974).[2] As the Court noted in *INS, supra*, at 237, and also in *Christie Grain & Stock Co., supra*, at 250, "The plaintiff has the right to keep the work it has done, or paid for doing, to itself ...," or to put it another way, has a right of exclusive use of its property.[3]

II

The 1975 amendments to FIFRA, at issue here, effectuate an unconstitutional taking of Mobay's prop-

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[2] There the Chief Justice stated (416 U.S. at 475) that "The protection accorded the trade secret holder is against the disclosure *or unauthorized use* of the trade secret by those to whom the secret has been confided under the express or implied restrictions of non-disclosure or *non-use*." (Emphasis supplied.)

[3] The Motion to Affirm (p. 8, fn. 9) cites the dissenting opinion of Mr. Justice Brandeis in *International News Service* v. *Associated Press*, 248 U.S. 215, 250-251 (1918). But the passage cited supports Mobay's position. Intellectual property, the Justice said "become[s], *after voluntary communication to others*, free as the air to common use." (Emphasis supplied.) Here the information was communicated to the predecessors of EPA confidentially and for a specific purpose. The objective of this suit is to prevent its communication to others, a use beyond that purpose.

erty. None of the reasons advanced by the Government for reading a contrary conclusion will withstand scrutiny.

(1) The Government and the court below concluded that, because Mobay's data are not physically transferred to third parties, the benefit which accrues to such other parties from EPA's use of the data "does not rise to the level of a taking of . . . property." (Motion to Affirm, pp. 6-7; App. 19a.) Physical transfer of property to another has not been a prerequisite of a finding of unconstitutional taking. Even in connection with real property, this Court has said: ". . . we do not embrace the proposition that a 'taking' can never occur unless Government has transferred physical control over a portion of a parcel." *Penn Central Transportation Co.* v. *New York City,* No. 77-444, decided June 26, 1978 (Slip Op. at 17, n.25.)[4] The same principle applies here. The contention is that the Government, through EPA, can give third parties the benefit of the data, and that this does not constitute a taking. But the same benefit accrues to the third parties whether they are in physical possession of the data or not. Even without physical transfer, the data, Mobay's property, are utilized by the EPA in support of the third party's application for pesticide registration,

[4] *See also Aris Gloves, Inc.* v. *United States,* 190 Ct.Cl. 367, 374, 420 F.2d 1386, 1391 (1970) (It is "not necessary for [the United States] to have actually taken physical possession of plaintiff's property in order for there to have been a fifth amendment taking. A taking can occur simply when the Government by its action deprives the owner of all or most of his interest in property . . . [or] if the Government makes it possible for someone else to obtain the use or benefit of another person's property." (Citations omitted.)

which is exactly what would occur if the papers containing the data were physically transferred to the third parties.

Disclosure of the data to these third parties is similarly immaterial.[5] The significant fact is that the third party receives the benefit of Mobay's property. There is no way to escape the fact that this is the consequence of the Government's action.

(2) The Government says that Mobay has not "surrendered" pre-1970 data to EPA, but has only provided copies of the data to EPA. (Motion to Affirm, p. 8.) On this basis, it argues that there has been no diminution in Mobay's use of the data, and thus no "taking" in the constitutional sense.

It is not clear how Mobay could furnish the data to EPA except by providing copies of it. As Judge Friendly has noted, in connection with unlawful interstate transportation of "goods," where copies of confidential documents were made and transported, with no interstate transportation of the originals, it is the information, not the form in which it is contained, that is critical, and it is irrelevant that the information is found in copies rather than in original documents. *United States* v. *Bottone,* 365 F.2d 389, 393-394 (2d Cir.), *cert. denied,* 385 U.S. 974 (1966). Here too, it is the information that is critical, and this information is clearly taken for the use of others. What was once

[5] Such a disclosure has not been foreclosed here. On the contrary, as pointed out in the amicus brief of the Dow Chemical Company, *et al.* (p. 18), the Administrator has never abandoned his view that *no* safety or efficacy data submitted pursuant to the registration requirements of the Act constitute trade secrets and that such data are thereby required to be *publicly disclosed* pursuant to Section 3(c)(2) of the Act (see cases cited in amicus brief).

Mobay's property is gone. As the court said in *South Terminal Corp.* v. *EPA*, 504 F.2d 646, 649 (1st Cir. 1974), when "a right to use or burden property in a particular and permitted way [is] transferred from the original owner to another person, or to a governmental body," there is a taking under the Fifth Amendment.

Mobay did submit pre-1970 data to EPA and its predecessors, but it submitted those items for a specific purpose and in confidence. (See Jurisdictional Statement, p. 5 and n.3, describing regulations providing for confidentiality.) [6] Prior to the enactment of the

[6] The Government quotes, at p. 3 of the Motion to Affirm, from *Amchem Products Inc.* v. *GAF Corp.*, 391 F. Supp. 124, 128 (N.D. Ga. 1975), *vacated*, 529 F.2d 1297 (5th Cir. 1976), *reinstated on remand*, 422 F. Supp. 390 (N.D. Ga. 1976), *appeal docketed*, No. 76-3801 (5th Cir. 1977), to the effect that "the Department of Agriculture, which enforced FIFRA from its enactment in 1947 until 1970, 'routinely' and 'freely' considered data submitted under FIFRA by one firm in support of other firms' applications." This seems at least disingenuous. Not only is there no evidence to this effect in this record, but the *Amchem* case itself shows that it relates to data submitted "From June 4, 1971 through October 10, 1972," and "from July 17, 1970 until September 29, 1972." 391 F. Supp. at 125. Thus the case has nothing to do with data submitted before January 1, 1970. Nor does the court make any reference to the regulations of the Food and Drug Administration establishing confidentiality, which the Government likewise ignores here. The court below also relied on the *Amchem* opinion (App. A, p. 21, N.22), which was clearly unwarranted. See Rule 201, Federal Rules of Evidence.

When specifically asked in 1975 by Chairman Poague of the House Agricultural Committee whether the EPA had ever by regulation or any kind of publication announced it would consider data submitted by one applicant to support the registration of another, the only evidence the agency could furnish the Committee was its Interim Policy Statement of November 19, 1973. *See Hearings on H.R. 6387, H.R. 8841, S. 2375 before the House Committee on Agriculture*, 94th Cong., 1st Sess., pt. 2, 36-40 (Comm. Print 1976).

1972 amendments to FIFRA, Mobay had exclusive use of the data furnished to EPA and its predecessors under regulations providing for confidentiality. Mobay could have sold, licensed or retained exclusive use of the data. After passage of the 1975 Act, Mobay's exclusive right to the pre-1970 data was destroyed; under the statute, its data, including its trade secrets, are now available to all applicants for pesticide registration, without the consent of or any payment of compensation to Mobay.[7] Such availability eliminates any competitive advantage which accrued to Mobay by virtue of its exclusive knowledge and use of its pre-1970 data and provides large free-ride benefits to its competitors. Without any expenditures for research, development, and testing, the ability to use Mobay's data opens new markets for later registrant applicants.[8]

This Court has clearly stated that "the deprivation of the former owner rather than the accretion of a right or interest to the sovereign constitutes the taking." *United States* v. *General Motors Corp.*, 323 U.S. 373, 378 (1945). *See also Eyherabide* v. *United States*, 170 Ct.Cl. 598, 606, 345 F.2d 565, 570 (1965). Here the deprivation of Mobay's exclusive right to its property (including the right to sell, license or retain it) by the

[7] Any change in Mobay's expectations as to the confidential status and its exclusive use of its data surely constitutes what this Court, in characterizing *Pennsylvania Coal Co.* v. *Mahon*, 260 U.S. 393 (1922) (Holmes, J.), called a taking. It noted that a ". . . statute that substantially furthers important public policies may so frustrate distinct investment-backed expectations as to amount to a 'taking.'" *Penn Central Transportation Co.* v. *New York City*, *supra* (Slip Op. at 21).

[8] *Cf. Thompson* v. *Consolidated Gas Utilities Corp.*, 300 U.S. 55 (1937), in which the Court found an unconstitutional taking where one company's property was used, at least in part, to open new markets for another company.

government's use of that property, solely for the benefit of private parties, results in a taking of property.[9]

(3) The establishment of a statutory scheme creating two classes of data, one for which no consent or compensation is required, and one for which consent and compensation are required, and the establishment of January 1, 1970 as the point to distinguish between them, is neither "reasonable" (Motion to Affirm, p. 10.) nor relevant.

The lapse of time may affect the value of the property, but it does not affect its character. The Constitution does not suddenly exhaust itself. It is no less applicable to any value remaining in pre-1970 data.

As the Court found in *Thompson* v. *Consolidated Gas Utilities Corp.*, 300 U.S. 55, 79 (1937), there is "no more glaring instance of the taking of one man's property and giving it to another" than is found in the forced sharing of the property and markets created by a private party for the benefit of another private party. That is what happens here. Under the Act, Mobay's pre-1970 data must be freely shared with and for the benefit of other private parties. While the Government may contend that the EPA may derive some benefit from this statutory scheme, any "public desire . . . is not enough to warrant achieving the desire by a shorter cut than the constitutional way of paying for the change." *Pennsylvania Coal Co.* v. *Mahon*, 260 U.S. 393, 416 (1922) (Holmes, J., for the Court).

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[9] *Cf. Tektronix, Inc.* v. *United States*, 213 Ct. Cl. 257, 552 F.2d 343, 346, *modified*, 213 Ct. Cl. 307, 557 F.2d 265 (1977), *damages awarded*, —— Ct. Cl. ——, 575 F.2d 832 (1978), and 28 U.S.C. § 1498, where it is recognized that the Government, when its contractors, with its consent, make unauthorized use of patented or copyrighted material, has "taken" the property in question by eminent domain and is liable in damages.

As was noted in the Jurisdictional Statement (p. 9), the selection of the 1970 date has no rational basis. It was simply a compromise, which, as EPA's counsel noted, has the virtue of being a round number. (Jurisdictional Statement, p. 9, n.9.)[10] Congress never gave consideration to the constitutional question inherent in excluding pre-1970 data.[11] Legislative compromises are understandable, but Congress cannot compromise constitutional rights.

III

Further reason for the Court to give plenary consideration to this appeal is provided by the enactment of the Federal Pesticide Act of 1978, Pub. L. No. 95-396, 92 Stat. 819. Congress has retained the 1970 cut-off date to demarcate a line between data for which the originator is to receive the right of exclusive use or compensation for use by others. The new Act thus perpetuates the constitutional flaw found in the 1975

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[10] To set a cut-off date based on the view that recompense for use of "old data" provides its owners with a "windfall," because such data were "prepared without the reasonable expectation that the law would require the sharing of costs," H.R. Rep. No. 94-668, 94th Cong., 1st Sess. (1975) at 2, is not reasonable. Having submitted data to EPA and its predecessors under regulations requiring confidentiality (see Jurisdictional Statement, p. 5 and n.3), Mobay could not reasonably have expected that its data would be provided to anyone, and thus had no expectation that the costs of producing the data were to be shared. After abrogation of the confidentiality and right of exclusive use to which a data owner was entitled, provision of recompense for its use can hardly be said to be a "windfall." A cut-off date based on this fallacy cannot withstand analysis.

[11] Only Senator Allen raised any concern when, much before the "compromise," he stated that "on the question of making all of this data that has been filed up to the passage of this bill—making

amendments to FIFRA, and lends additional importance and urgency to the novel constitutional question presented here.

CONCLUSION

For the reasons set forth above and in the Jurisdictional Statement, probable jurisdiction should be noted.

Respectfully submitted,

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that, as I say, in the public domain. That would seem to be more or less confiscating all of this data." *Hearings on H.R. 8841, before the Subcomm. on Agricultural Research & General Legislation of the Comm. on Agriculture & Forestry,* 94th Cong., 1st Sess. 151 (1975). Senator Allen's question was never answered.